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How a newly unified GOP government will affect ETFs
By Rob Burgess
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In January, Republicans will return to Washington in charge of a newly unified government, having swept the presidency and both houses of Congress.

In a CFRA Research webinar Thursday, John Sonsalla, head of policy and legal research at Washington Analysis, and Aniket Ullal, head of ETF research and analytics for CFRA Research, took a closer look at the incoming administration of president-elect Donald Trump, his legislative priorities and their implications for ETFs.

Lame-duck session and Republicans in 2025
Federal government funding, the National Defense Authorization Act, disaster aid and the extension of the farm bill will be priorities for Congress in these last days of 2024.

"The lame duck, at this stage, is looking pretty lame," he said. "They essentially have one more week left to accomplish whatever they want to accomplish for the remainder of the year."

However, 2025 is expected to be action-packed.

"When you think about the major legislation that's passed in the last decade or more, most of that was done when we had unified control of Congress," said Sonsalla.

SEC Chairman Gary Gensler will resign before Inauguration Day, as former SEC Commissioner Paul Atkins is expected to take the reins of the agency as Trump's nominee. This would usher in a sea change in terms of cryptocurrency policy with the SEC, said Sonsalla. The more industry-friendly leadership of the agency is likely to be more open to new ETF structures.

All banks with over $100 billion in assets will benefit from current regulatory efforts being scaled back or abandoned, said Sonsalla. This includes a proposed plan to increase capital requirements for big banks, known as Basel III Endgame. There will also be significantly more openness to bank M&A. This will likely result in a wave of consolidation after years of pent-up demand. However, the handful of global systemically important banks (G-SIBs) will still face resistance to large deals. Bank and non-bank consumer financial product and service firms

will likely see significantly less supervision, enforcement and regulatory headwinds. But, ESG financing will face pressure.

Congress will likely play a limited but supporting role in these changes, said Sonsalla. Talk of "populist Republicans" driving policies creating an 18% cap on credit card interest rates is overstated.

"I always say Republicans today aren't my father's Chamber of Commerce Republicans," he said. "The squeaky wheel gets the oil and whoever has the microphone is going to be heard the loudest. So, there's a lot of attention put on a select number of members who support these policies. But, ultimately, I believe that's not where the broader Republican conference is."

ETFs react to anticipated policy changes

Capital market and regional bank ETFs have outperformed since the elections, as have fintech- and software-focused ETFs. Master limited partnerships and oil producers have appreciated, while electric vehicle and solar ETFs have been down since the election, said Ullal.

"ETFs can be selected based on anticipated policy changes," he said.

The incoming administration is likely to be hostile toward ESG and DEI, including investment offerings that give consideration to such factors.

According to CFRA Research, "Anti-woke" ETFs are growing in number, but their success is still unproven. For example, Point Bridge Capital's America First ETF (ticker symbol MAGA) includes 150 companies from the S&P 500 whose employees and political action committees are highly supportive of Republican candidates. The American Conservative Values ETF (ACVF) seeks to exclude companies perceived to be most hostile to conservative values without sacrificing performance. (Created by Ridgeline Research, the fund explicitly excludes firms it classifies as "woke," including Google and Amazon.) The God Bless America ETF (YALL), issued by Curran Financial Partners, eliminates companies that have emphasized politically left or liberal political activism and social agendas at the expense of maximizing shareholder returns. The Strive 500 ETF (STRV) features concentrated exposure to U.S. large capitalization corporations.

Take Trump's tariff threats seriously

Trump's tariff threats are credible, said Ullal. The administration has the unilateral ability to enact its trade and tariffs agenda with regard to specific products, countries or across the board. As a result, several asset managers have launched "re-shoring"-themed ETFs in the last 12 to 24 months.

"Trump views tariffs as the best tool he has in his arsenal to get other countries to do the things that he would like to see them do," he said.

Trump's goals are to rebalance trade relationships, incentivize supply chain shifts in key areas and secure concessions on non-trade issues, said Ullal.

"It is mostly about leverage," he said.

Ullal said he expects Trump to announce across-the-board 10% to 20% tariffs with delayed implementation that gives time for negotiations.

"Mexico has plenty to trade, and China is transactional in nature, but the European Union may resist," he said.